

BOYD COUNTY SCHOOL DISTRICT

**FINANCIAL STATEMENTS
AND SUPPLEMENTAL INFORMATION
FOR THE YEAR ENDED JUNE 30, 2003**

TOGETHER WITH INDEPENDENT AUDITOR'S REPORTS

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INDEPENDENT AUDITOR'S REPORT

Kentucky State Committee for
School District Audits
Members of the Board of Education
Boyd County School District
Ashland, Kentucky

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Boyd County School District (the "District"), as of and for the year ended June 30, 2003, which collectively comprise the District's basic financial statements as listed in the foregoing table of contents. These financial statements are the responsibility of the management of the Boyd County School District. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements prescribed by the Kentucky State Committee for School District Audits in *Appendix I to the Independent Auditor's Contract - General Audit Requirements and Appendix II to the Independent Auditor's Contract - State Audit Requirements, and Appendix III to the Independent Auditor's Contract - Electronic Submission*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Boyd County School District as of June 30, 2003, and the respective changes in financial position and cash flows, where applicable, and the respective budgetary comparison for the General Fund and the Special Revenue Fund for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

As described in Note 15 to the basic financial statements, the District has implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, as of July 1, 2002.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 7, 2003, on our consideration of Boyd County School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis on pages 4 through 7 is not a required part of the basic financial statements but is supplemental information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements that collectively comprise the Boyd County School District basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. Additionally, the schedule of expenditures of federal awards contained on pages 46 and 47 is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements of Boyd County School District. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

August 7, 2003

**BOYD COUNTY SCHOOL DISTRICT – ASHLAND, KENTUCKY
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)
FOR THE YEAR ENDED JUNE 30, 2003**

As management of the Boyd County School District (District), we offer readers of the District’s financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2003. We encourage readers to consider the information presented here in conjunction with additional information found within the body of the financial statements.

FINANCIAL HIGHLIGHTS

- The beginning cash balance for the District was \$2,913,155.
- The ending cash balance for the District was \$2,332,131.
- The board has set aside \$386,788 from the sale of buildings in prior years for future facilities needs.
- The board initiated no new major construction projects nor issued bonds in fiscal 2003.
- The District renovates and constructs facilities consistent with a long-range facilities plan that is established with community input and is in compliance with Kentucky Department of Education (KDE) regulations.
- The District’s total debt decreased by \$1,115,306 during the current fiscal year.
- During fiscal 2003, the District was required to refund \$81,985 from current property tax receipts due to overpayments in prior years.
- During fiscal 2003, three major local employers, Corbin, Ltd., Applied Card Corporation, and Kentucky Electric Steel, Inc. ceased operations. This will impact the local economy and district tax collections in future years.
- The General Fund had approximately \$18.1 million in revenue, which primarily consisted of the state program (SEEK), property, utilities, and motor vehicle taxes. Excluding inter-fund transfers, there were approximately \$17.9 million in General Fund expenditures.

OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the District’s basic financial statements. The District’s basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements: The government-wide financial statements are designed to provide readers with a broad overview of the District’s finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all of the District’s assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the district is improving or deteriorating.

The statement of activities presents information showing how the District’s net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus,

revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The government-wide financial statements outline functions of the District that are principally supported by property taxes and intergovernmental revenues (governmental activities). The governmental activities of the District include instruction, support services, operation and maintenance of plant, student transportation and operation of non-instructional services. Taxes and intergovernmental revenues also support fixed assets and related debt.

The government-wide financial statements can be found on pages 8 and 9 of this report.

Fund financial statements: A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. This is a state mandated uniform system and chart of accounts for all Kentucky public school districts utilizing the MUNIS administrative software. The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into three categories: governmental, proprietary funds and fiduciary funds. Fiduciary funds are trust funds established by benefactors to aid in student education, welfare and teacher support. The only proprietary funds are our vending and food service operations. All other activities of the district are included in the governmental funds.

The basic governmental fund financial statements can be found on pages 10 - 20 of this report.

Notes to the financial statements: The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 21 - 34 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$16.7 million as of June 30, 2003.

The largest portion of the District's net assets reflects its investment in capital assets (e.g., land and improvements, buildings and improvements, vehicles, furniture and equipment and construction in progress), less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to its students; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The District's financial position is the product of several financial transactions including the net results of activities, the acquisition and payment of debt, the acquisition and disposal of capital assets, and the depreciation of capital assets.

Net Assets for the period ending June 30, 2003

The current year's financial statements are dramatically different from past years as a result of implementing GASB 34. Attempting to compare this year's data with last year would be misleading to the reader however the District looks forward to offering comparative data in the future.

Current Assets	\$ 3,209,055
Noncurrent Assets	<u>27,424,815</u>
Total Assets	<u><u>\$ 30,633,870</u></u>

Current Liabilities	\$ 1,715,840
Noncurrent Liabilities	<u>12,213,473</u>
Total Liabilities	<u>13,929,313</u>
Net Assets	
Investment in capital assets (net of debt)	14,539,815
Unreserved Fund Balance	<u>2,164,742</u>
Total Net Assets	<u>\$ 16,704,557</u>

The following are significant current year transactions that have had an impact on the Statement of Net Assets.

The District implemented GASB 34 and recorded fixed assets and debt for the first time.

Comments on Budget Comparisons

- The District's total revenues for the fiscal year ended June 30, 2003, net of inter-fund transfers, were \$28.4 million.
- General Fund budget compared to actual revenue varied slightly from line item to line item with the ending actual balance being approximately \$2 million more than budget or approximately 12.7% due largely to unanticipated on-behalf payments for insurance made by the state in the amount of \$1,839,341. If this amount is removed from consideration, the difference between actual revenue and budgeted revenue is approximately 1%.
- The total cost of all programs and services was approximately \$28.8 million net of debt service.

The following table presents a summary of revenue and expense for the fiscal year ended June 30, 2003.

	<u>Amount</u>
Revenues:	
Local revenue sources	\$ 6,317,786
State revenue sources	17,146,567
Direct Federal sources	2,069,907
Indirect Federal sources	2,618,974
Interest income	221,187
Other sources	<u>27,348</u>
Total revenues	<u>28,401,769</u>
Expenses:	
Instruction	19,191,280
Student Support Services	1,223,280
Instructional Support	817,416
District Administration	851,658
School Administration	1,258,617
Business Support	276,130
Plant Operations	1,416,235
Student Transportation	1,228,286
Central Office Support	20,773
Community Services	356,227
Food service operations	1,460,409
Debt service	<u>699,523</u>
Total expenses	<u>28,799,834</u>
Expense in Excess of Revenue	<u>\$ (398,065)</u>

BUDGETARY IMPLICATIONS

In Kentucky the public school fiscal year is July 1-June 30; other programs, i.e. some federal operate on a different fiscal calendar, but are reflected in the District overall budget. By law the budget must have a minimum 2% contingency. The District adopted a budget with \$ 761,529 in contingency (4.25%). The beginning cash balance for beginning the fiscal year is \$2.9 million. There was no significant Board action that impacted the finances during the current year.

Questions regarding this report should be directed to Superintendent Dr. William Capehart (606) 928-4141 or to Director of Finance Don Fleu (606) 928-4141 or by mail at 1104 Bob McCullough Drive, Ashland, Kentucky 41102.

BOYD COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2003

(1) REPORTING ENTITY

The Boyd County Board of Education (Board), a five-member group, is the level of government which has oversight responsibilities over all activities related to public elementary and secondary school education within the jurisdiction of the Boyd County School District (District). The District receives funding from local, state and Federal government sources and must comply with the commitment requirements of these funding source entities. However, the Board is not included in any other governmental "reporting entity" as defined in Section 2100, Codification of Governmental Accounting and Financial Reporting Standards as Board members are elected by the public and have decision making authority, the power to designate management, the responsibility to develop policies which may influence operations and primary accountability for fiscal matters.

The Board, for financial reporting purposes, includes all of the funds and account groups relevant to the operation of the Boyd County School District. The financial statements presented herein do not include funds of groups and organizations, which although associated with the school system, have not originated within the Board itself such as Band Boosters, Parent-Teacher Associations, etc.

The financial statements of the Board include those of separately administered organizations that are controlled by or dependent on the Board. Control or dependence is determined on the basis of budget adoption, funding and appointment of the respective governing Board.

Based on the foregoing criteria, the financial statements of the following organization are included in the accompanying financial statements. Copies of component unit reports may be obtained from the District's Finance Office at 1104 Bob McCullough Drive, Ashland, Kentucky 41102.

Boyd County School District Finance Corporation

On August 28, 1989, Boyd County, Kentucky, Board of Education resolved to authorize the establishment of the Boyd County School District Finance Corporation (a non-profit, non-stock, public and charitable corporation organized under the School Bond Act and KRS 273 and KRS Section 58.180) as an agency of the Board for financing the costs of school building facilities. The Board Members of the Boyd County Board of Education also comprise the Corporation's Board of Directors.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Boyd County School District substantially comply with the rules prescribed by the Kentucky Department of Education for local school districts.

Basis of Presentation

The basic financial statements include both government-wide statements and fund financial statements. The government-wide statements focus on the District as a whole, while the fund financial statements focus on major funds. Each presentation provides valuable information that can be analyzed and compared between years and between governments to enhance the usefulness of the information.

Government-wide statements—provide information about the primary government (the District). The statements include a statement of net assets and a statement of activities. These statements report the financial activities of the overall government, except for fiduciary activities. They also distinguish between the governmental and business-type activities of the District. Governmental activities generally are financed through taxes and intergovernmental revenues. Business-type activities are financed in whole or in part by fees charged to external parties.

The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The statement of activities presents a comparison between direct expenses and program revenues for each function of the District's governmental activities and segment of its business-type activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. The District does not allocate indirect expenses to programs or functions. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including internally dedicated resources and all taxes, are reported as general revenues, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the District.

Fund financial statements—provide information about the District's funds, including fiduciary funds. Separate statements are presented for the governmental, proprietary, and fiduciary fund categories. The emphasis of fund financial statements is on major funds, each displayed in a separate column. All remaining funds are aggregated and reported as nonmajor funds. Fiduciary funds are aggregated and reported by fund type.

The accounting and reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenues, expenditures and changes in fund balances, which reports on the changes in net total assets. Proprietary funds and fiduciary funds are reported using the economic resources measurement focus. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary activities.

The District has the following funds:

I. Governmental Fund Types

- (A) The General Fund is the primary operating fund of the District. It accounts for financial resources used for general types of operations. This is a budgeted fund and any unrestricted fund balances are considered as resources available for use. This is a major fund of the District.

- (B) The Special Revenue Funds account for proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to disbursements for specified purposes. It includes federal financial programs where unused balances are returned to the grantor at the close of specified project periods as well as the state grant programs. Project accounting is employed to maintain integrity for the various sources of funds. The separate projects of federally funded grant programs are identified in the Schedule of Expenditures of Federal Awards included in this report. This is a major fund of the District.
- (C) Capital Project Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities and equipment (other than those financed by Proprietary Funds).
1. The Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund receives those funds designated by the state as Capital Outlay Funds and is restricted for use in financing projects identified in the District's facility plan.
 2. The Facility Support Program of Kentucky (FSPK) Fund accounts for funds generated by the building tax levy required to participate in the School Facilities Construction Commission's construction funding and state matching funds, where applicable. Funds may be used for projects identified in the District's facility plan.
 3. The Technology Fund accounts for the Kentucky Education Technology System (KETS) allocation and local district matching funds restricted for the purchase of technology consistent with the District's approved technology plan.
 4. The School Construction Fund and Education Building Funds account for proceeds from sales of bonds and other revenues to be used for authorized construction expenditures.
- (D) The Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest and related costs; and, for the payment of interest on general obligation notes payable, as required by Kentucky Law.

II. Proprietary Funds (Enterprise Fund)

The School Food Service Fund is used to account for school food service activities, including the National School Lunch Program, which is conducted in cooperation with the U.S. Department of Agriculture (USDA). The District applies all GASB pronouncements as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

III. Fiduciary Fund Types (includes agency and trust funds)

The Activity Funds account for activities of student groups and other types of activities requiring clearing accounts. These funds are accounted for in accordance with *Uniform Program of Accounting for School Activity Funds*. The Hamilton Scholarship Fund is accounted for as an expendable trust fund on the modified accrual basis.

Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported in the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Government funds use the modified accrual basis of accounting. Proprietary and fiduciary funds also use the accrual basis of accounting.

Revenues – Exchange and Non-exchange Transactions – Revenues resulting from exchange transactions, in which each party receives essentially equal value, are recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenues are recorded in the fiscal year in which the resources are measurable and available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within sixty days of the fiscal year-end.

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenues from nonexchange transactions must also be available before they can be recognized.

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Grants and entitlements received before the eligibility requirements are met are recorded as deferred revenue.

On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported in the statement of revenues, expenses, and changes in net assets as an expense with a like amount reported as donated commodities revenue.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditure) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable.

Property Taxes

Property taxes collected are recorded as revenues in the fund for which they were levied. The District's ad valorem property tax is levied each October 1 on the assessed value listed as of the prior January 1 for all real and business personal property located in the District. The assessed value of property upon which the levy for the 2003 fiscal year was based was \$902,591,593.

The tax rates assessed for the year ended June 30, 2003 to finance general fund operations were \$.368 on real estate and \$.405 per \$100 valuation on tangible property.

Taxes are due on October 1 and become delinquent by February 1 following the October 1 levy date. Current tax collections for the year ended June 30, 2003 were 95% of the tax levy.

In-Kind

Local contributions, which include contributed services provided by individuals, private organizations and local governments, are used to match federal and state administered funding on various grants. The District also receives commodities from U.S.D.A. The amounts of such services and commodities are recorded in the accompanying financial statements at their estimated fair market values.

Cash and Cash Equivalents

The Board considers demand deposits, money market funds, and other investments with an original maturity of 6 months or less, to be cash equivalents.

Inventories

Supplies and materials are charged to expenditures when purchased with the exception of the Proprietary Funds, which records inventory using the accrual basis of accounting. Inventories are stated at the lower of cost or market, on the first-in, first-out basis.

Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net assets and in the respective funds.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of one thousand dollars with the exception of computers, digital cameras and real property for which there is no threshold. Improvements are capitalized; the cost of, normal maintenance and repairs that do not add to the value of the asset or materially extend an assets life are not.

All reported capital assets, other than land, are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives for both general capital assets and proprietary fund assets:

<u>Description</u>	<u>Estimated Lives</u>
Buildings and improvements	25-50 years
Infrastructure	20 years
Technology equipment	5 years
Vehicles	5-10 years
Food service equipment	5-12 years
Other general	7-10 years

Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as interfund receivables/payables. These amounts are eliminated in the governmental and business-type activities columns of the statements of net assets, except for the net residual amounts due between governmental and business-type activities, which are presented as internal balances.

Budgetary Process

Budgetary Basis of Accounting: The Districts budgetary process accounts for certain transactions on a basis other than Generally Accepted Accounting Principles (GAAP). The major differences between the budgetary basis and the GAAP basis are:

Revenues are recorded when received in cash (budgetary) as opposed to when susceptible to accrual (GAAP).

Expenditures are recorded when paid in cash (budgetary) as opposed to when susceptible to accrual (GAAP).

Once the budget is approved, it can be amended. Amendments are presented to the Board at their regular meetings. Per Board policy, only amendments that aggregate greater than \$50,000 require Board approval. Such amendments are made before the fact, are reflected in the official minutes of the Board, and are not made after fiscal year-end as dictated by law.

Each budget is prepared and controlled by the budget coordinator at the revenue and expenditure function/object level. All budget appropriations lapse at year-end.

Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities and long-term obligations payable from proprietary funds are reported on the proprietary fund financial statements.

In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources. However, claims and judgments, the noncurrent portion of capital leases, accumulated sick leave, contractually required pension contributions and special termination benefits that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they will be paid with current, expendable, available financial resources. In general, all payments made within sixty days after year-end are considered to have been made with current available financial resources. Bonds and other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements until due.

Fund Balance Reserves

The District reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves have been established for inventories and fixed assets.

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the School District, those revenues are primarily charges for meals provided by the various schools.

Contributions of Capital

Contributions of capital in proprietary fund financial statements arise from outside contributions of fixed assets, or from grants or outside contributions of resources restricted to capital acquisition and construction.

Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after nonoperating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect reported amounts of assets, liabilities, designated fund balances, and disclosure of contingent assets and liabilities at the date of the basic financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

(3) DEBT OBLIGATIONS

The amount shown in the accompanying financial statements as bond obligations represents the Board's future obligations to make lease payments relating to the bonds issued by the Boyd County Fiscal Court and the Boyd County School District Finance Corporation ("BCSDFC"), aggregating \$20,740,000.

Bonds

The General Fund, Facilities Support Program (FSPK) Fund and the SEEK Capital Outlay Fund are obligated to make lease payments. The lease agreements provide among other things, (1) for

rentals sufficient to satisfy debt service requirements on bonds issued by the Fiscal Court and the BCSDFC to construct school facilities and (2) the Board with the option to purchase the properties under leases at any time by retiring the bonds then outstanding. The proceeds from certain refunding issues have been placed in escrow accounts to be used to service the related debt.

The original amount of present outstanding issues, the issue dates, and interest rates are summarized below:

<u>Issue</u>	<u>Original Amount</u>	<u>Interest Rates</u>
Issue of 1978	\$ 4,045,000	4.50-5.80%
Issue of 1992	895,000	3.70-5.80%
Issue of 1996	425,000	4.60-5.70%
Issue of 1997	13,295,000	4.40-5.375%
Issue of 1999	<u>2,080,000</u>	4.00-5.25%
	<u>\$ 20,740,000</u>	

The bonds may be called prior to maturity at dates and redemption premiums specified in each issue.

A summary of activity in bond obligations and other debts is as follows:

<u>Description</u>	<u>Balance at June 30, 2002</u>	<u>Issued</u>	<u>Payments</u>	<u>Balance at June 30, 2003</u>
General obligation bonds – \$20,740,000 originally issued with interest rates ranging from 3.70% to 5.80%	\$ 13,960,000	\$ -	\$1,075,000	\$ 12,885,000
Property tax overpayment to offset future payments	80,611	-	40,306	40,305
Accumulated unpaid sick leave benefits	<u>253,813</u>	<u>199,660</u>	<u>-</u>	<u>453,473</u>
	<u>\$ 14,294,424</u>	<u>\$ 199,660</u>	<u>\$ 1,115,306</u>	<u>\$ 13,378,778</u>

In connection with the bond issues of 1997 and 1999, the Board entered into a participation agreement with the Kentucky School Facilities Construction Commission, whereby the Commission has agreed to provide amounts on an annual basis (reflected in the following table) toward the payment of principal and interest requirements on the bonds. The agreement is in effect for a period of two years. The obligation of the Commission to make said payments shall automatically renew every two years, unless the Commission provides the Board notice of its intention not to participate within sixty days prior to the expiration of the two year period.

Assuming no issues are called prior to scheduled maturity and that the Kentucky School Facilities Construction Commission continues to renew its agreement, the minimum obligations at June 30, 2003 for debt service (principal and interest) are as follows:

Year	Kentucky School Facilities Construction Commission		Boyd County School District		Total
	Principal	Interest	Principal	Interest	
2004	\$ 204,852	\$ 159,596	\$ 920,148	\$ 432,329	\$ 1,716,925
2005	212,560	150,196	967,440	389,899	1,720,095
2006	225,336	140,141	1,009,664	344,909	1,720,050
2007	240,672	129,232	679,328	305,723	1,354,955
2008	253,270	117,480	711,730	273,033	1,355,513
2009	266,252	104,990	738,748	238,946	1,348,936
2010	279,655	91,760	785,345	203,130	1,359,890
2011	148,895	81,207	391,105	175,484	796,691
2012	155,098	73,540	409,902	156,660	795,200
2013	162,500	65,456	432,500	136,864	797,320
2014	170,055	56,909	454,945	116,009	797,918
2015	177,806	47,894	477,194	93,388	796,282
2016	190,729	38,257	499,271	68,976	797,233
2017	189,116	28,259	530,884	43,222	791,481
2018	167,792	18,853	557,208	14,975	758,828
2019	155,000	10,369	-	-	165,369
2020	120,000	3,150	-	-	123,150
	<u>\$ 3,319,588</u>	<u>\$ 1,317,289</u>	<u>\$ 9,565,412</u>	<u>\$ 2,993,547</u>	<u>\$ 17,195,836</u>

(4) ACCUMULATED UNPAID SICK LEAVE BENEFITS

Upon retirement from the school system, an employee will receive from the District an amount equal to 30% of the value of accumulated sick leave. At June 30, 2003, this amount totaled \$453,473. Sick leave benefits are accrued as a liability using the termination payment method. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination payments. The liability is based on the School District's past experience of making termination payments. The District follows a policy of funding the estimated portion payable in one year based upon a historical average as a reservation of the General Fund balance.

(5) RETIREMENT PLANS

A. Kentucky Teachers Retirement System:

All certified employees are covered under the Kentucky Teachers Retirement System ("KTRS"). KTRS, a cost sharing, multiple-employer, public employee retirement system, provides retirement benefits based on an employee's final average salary and number of years service. Benefits are subject to certain reductions if the employee retires before reaching age sixty, unless the employee has twenty-seven or more years of participation in the plan. The plan also provides for disability retirement, death and survivor benefits and medical insurance.

The Kentucky Teachers Retirement System issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to Kentucky Teachers Retirement System, 479 Versailles Road, Frankfort, Kentucky 40601-3868 or by calling (502) 573-5120.

Funding for the plan is provided from eligible employees who contribute 9.855% of their salary through payroll deductions and by the Commonwealth of Kentucky through matching contributions at the rate of 13.105%. The matching contributions are paid by

the Federal programs for any salaries paid by these programs. Kentucky-Revised Statute and the KTRS Board of Trustees establish contribution requirements of the plan members and the District. Contributions to KTRS made on behalf of the District by the Commonwealth of Kentucky for the year ended June 30, 2003 were \$1,513,592 and the Board paid \$183,571 from federal grant monies to KTRS in matching contributions for federally funded employees for a total of \$1,697,163 paid to KTRS, equal to the required contribution for the year.

B. County Employee's Retirement System:

The District contributes to the County Employee's Retirement System ("CERS"), a cost-sharing, multiple-employer defined benefit pension plan administered by the Kentucky General Assembly. It covers substantially all regular full-time members employed in non-hazardous duty positions of each county and school board, and any additional eligible local agencies electing to participate in the CERS. CERS provides for retirement, disability, and death benefits to plan members. Cost of living adjustments are provided at the discretion of the State legislature.

The CERS issues a publicly available financial report included in the Kentucky Retirement Systems Annual Report that includes financial statements and the required supplementary information for CERS. That report may be obtained by writing to Kentucky Retirement Systems, Perimeter Park West, 1260 Louisville Road, Frankfort, Kentucky, 40601, or by calling (502) 564-4646.

Plan members are required to contribute 5% of their annual creditable compensation, and the District is required to contribute 6.34% of the employee's total compensation. The contribution requirements of CERS members and the District are established and may be amended by the CERS Board of Trustees. The District's contributions to CERS for the year ending June 30, 2003, were \$269,557, equal to the required contributions for the year.

(6) CASH AND CASH EQUIVALENTS

At June 30, 2003, the carrying amount of the Board's cash and cash equivalents was \$2,774,561 and the bank balances totaled \$3,807,515. Of the total bank balances, \$428,879 was insured by the Bank Insurance Fund and \$3,378,636 was secured by collateral held by the pledging banks in, the District's name.

General Fund cash and cash equivalents at June 30, 2003 consisted of a money market checking account.

Due to the nature of the accounts and certain limitations imposed on the use of funds, each bank account within the following funds is considered to be restricted: SEEK Capital Outlay Fund, Facility Support Program (FSPK) Fund, Technology Fund, Education Building Fund, Special Revenue (Grant) Funds, Bond and Interest Redemption Fund, School Construction Fund, School Food Service Funds, and School Activity Funds.

(7) CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2003, was as follows:

<u>Governmental Activities</u>	<u>June 30, 2002</u>	<u>Additions</u>	<u>Deductions</u>	<u>June 30, 2003</u>
Land	\$ 1,270,900	\$ -	\$ -	\$ 1,270,900
Buildings and improvements	59,100,000	-	-	59,100,000
Technology equipment	2,278,501	416,270	-	2,694,771
Vehicles	2,377,810	62,303	-	2,440,113
General	712,111	22,594	-	734,705
Infrastructure	9,483	26,689	-	36,172
Totals at historical cost	<u>65,748,805</u>	<u>527,856</u>	<u>-</u>	<u>66,276,661</u>
Less: accumulated depreciation -				
Buildings and improvements	(33,769,000)	(1,182,000)	-	(34,951,000)
Technology equipment	(1,304,189)	(471,288)	-	(1,775,477)
Vehicles	(1,689,045)	(146,453)	-	(1,835,498)
General	(417,793)	(52,274)	-	(470,067)
Infrastructure	-	(1,612)	-	(1,612)
Total accumulated depreciation	<u>(37,180,027)</u>	<u>(1,853,627)</u>	<u>-</u>	<u>(39,033,654)</u>
Governmental Activities				
Capital Assets – Net	<u>\$ 28,568,778</u>	<u>\$ (1,325,771)</u>	<u>\$ -</u>	<u>\$ 27,243,007</u>
<u>Business—Type Activities</u>				
Food service equipment	<u>\$ 644,400</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 644,400</u>
Totals at historical cost	<u>644,400</u>	<u>-</u>	<u>-</u>	<u>644,400</u>
Less: accumulated depreciation				
Food service and equipment	<u>(437,035)</u>	<u>(25,557)</u>	<u>-</u>	<u>(462,592)</u>
Total accumulated depreciation	<u>(437,035)</u>	<u>(25,557)</u>	<u>-</u>	<u>(462,592)</u>
Business-Type Activities				
Capital Assets – Net	<u>\$ 207,365</u>	<u>\$ (25,557)</u>	<u>\$ -</u>	<u>\$ 181,808</u>

Depreciation expense was allocated to governmental functions.

(8) OPERATING LEASES

The District has operating lease agreements for use of equipment and various parcels of real estate cancelable annually with the option to renew. The District recognizes the expenditures related to those obligations in the current unrestricted funds as lease payments are made. Total rent expenditures under operating type leases were approximately \$86,392.

(9) CONTINGENCIES

The District receives funding from Federal, state and local government agencies and private contributions. These funds are to be used for designated purposes only. For government agency grants, if based on the grantor's review the funds are considered not to have been used for the intended purpose, the grantors may request a refund of monies advanced, or refuse to reimburse the District for its disbursements. The amount of such future refunds and unreimbursed disbursements, if any, is not expected to be significant. Continuation of the District's grant programs is predicated upon the grantors' satisfaction that the funds provided are being spent as intended and the grantors' intent to continue their programs.

(10) INSURANCE AND RELATED ACTIVITIES

The District is exposed to various forms of loss of assets associated with the risks of fire, personal liability, theft, vehicular accidents, errors and omissions, fiduciary responsibility, etc. Each of

these risk areas are covered through the purchase of commercial insurance. The District has purchased certain policies which are retrospectively rated which includes worker's compensation insurance.

(11) RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. To obtain insurance for workers' compensation, errors and omissions, and general liability coverage, the District participates in the Kentucky School Boards Insurance Trust Liability Insurance Fund. These public entity risk pools operate as common risk management and insurance programs for all school districts and other tax supported educational agencies of Kentucky who are members of the Kentucky School Boards Association. The District pays an annual premium to each fund for coverage. Contributions to the Workers' Compensation Fund are based on premium rates established by such fund in conjunction with the excess insurance carrier, subject to claims experience modifications and a group discount amount. Dividends may be declared, but are not payable until twenty-four (24) months after the expiration of the self-insurance term. The Liability Insurance Fund pays insurance premiums of the participating members established by the insurance carrier. The Trust can terminate coverage if it is unable to obtain acceptable excess general liability coverage and for any reason by giving ninety (90) days notice. In the event the Trust terminated coverage, any amount remaining in the Fund (after payment of operational and administrative costs and claims for which coverage was provided) would be returned to the member on a pro rata basis.

The District purchases unemployment insurance through the Kentucky School Boards Insurance Trust Unemployment Compensation Fund; however, risk has not been transferred to such fund. In addition, the District continues to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(12) COBRA

Under COBRA, employers are mandated to notify terminated employees of available continuing insurance coverage. Failure to comply with this requirement may put the District at risk for a substantial loss (contingency).

(13) ON-BEHALF PAYMENTS

For fiscal year 2003, the Commonwealth of Kentucky contributed payments on behalf of the Boyd County School District as follows:

<u>Plan/Description</u>	<u>Amount</u>
Kentucky Teachers Retirement System	\$ 1,513,592
Health Insurance Plan	1,439,355
Flexible Spending Plan	366,321
Life Insurance Plan	11,377
Administrative Fees	22,288

These amounts are included the District-Wide Statement of Activities as State Revenue and an expense allocated to the different functions in the same proportion as full-time employees.

(14) TRANSFER OF FUNDS

The following transfers were made during the year.

<u>Type</u>	<u>From Fund</u>	<u>To Fund</u>	<u>Purpose</u>	<u>Amount</u>
Operating	General Fund	Capital Project Fund (FSPK)	Debt Service	\$ 162,160
Debt Service	Capital Project Fund (FSPK and SEEK)	Debt Service Fund	Debt Service	1,344,103
Operating	General Fund	Special Revenue Fund	Technology Match	24,946
Operating	Special Revenue Fund	General Fund	Indirect Costs	53,116

(15) CHANGES IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF FUND BALANCE

For the fiscal year ended June 30, 2003, the District has implemented GASB Statement No. 33, "Accounting and Financial Reporting for Nonexchange Transactions" and GASB Statement No. 34, "Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments".

GASB 34 creates new basic financial statements for reporting on the School District's financial activities. The financial statements now include government-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

The government-wide financial statements split the District's programs between business-type and governmental activities. The beginning net asset amount for governmental programs reflects the change in fund balance for governmental funds at June 30, 2002, caused by the conversion to the accrual basis of accounting.

The School District made several changes in accounting principles during the year. For governmental activities, they began recording the current portion of the accumulated sick leave liability, removed long-term investments not to be used for current expenditures, and began accounting for technology fund revenues in the special revenue fund. These changes bring the District's funds into compliance with the fund classifications and requirements of GASB 34.

Restatement of Fund Balance - The restatement for the above changes and the transition from governmental fund balance to net assets of the governmental activities is presented below:

	<u>General</u>	<u>Special Revenue</u>	<u>Nonmajor</u>	<u>Total</u>
Fund Balance, June 30, 2002	\$ 2,315,436	\$ -	\$ 1,021	\$ 2,316,457
GASB 34 Adjustments:				
Capital Assets – Net of Depreciation				28,568,778
Long-Term Liabilities				(14,040,611)
Accumulated sick leave – long-term portion				<u>(253,813)</u>
Governmental Activities Net Assets, June 30, 2002, as adjusted				<u>\$ 16,590,811</u>

The District reclassified several funds from proprietary to government funds based upon fund classifications presented in GASB 34. The District also had a fixed asset inventory taken to comply with GASB 34. This inventory revealed the existence of proprietary fixed assets that have not previously been recorded on the books. Changes to business-type activities as a result of the GASB 34 implementation are as follows:

Fund Balance, June 30, 2002	\$ 558,965
Additional fixed assets	37,245
Additional depreciation	<u>(84,399)</u>
Business-Type Activities Net Assets, June 30, 2002, as adjusted	<u>\$ 511,811</u>

SUPPLEMENTAL INFORMATION

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON INTERNAL
CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Kentucky State Committee for
School District Audits
Members of the Board of Education
Boyd County School District
Ashland, Kentucky

We have audited the basic financial statements of the Boyd County School District (the "District") as of and for the year ended June 30, 2003, and have issued our report thereon dated August 7, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements prescribed by the Kentucky State Committee for School District Audits in *Appendix I to the Independent Auditor's Contract - General Audit Requirements* and *Appendix II to the Independent Auditor's Contract - State Audit Requirements* and *Appendix III to the Independent Auditor's Contract – Electronic Submission*.

Compliance

As part of obtaining reasonable assurance about whether the District's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. In addition, the results of our tests disclosed no instances of noncompliance of specific state statutes or regulations identified in *Appendix II of the Independent Auditor's Contract - State Audit Requirements*, and *Appendix III to the Independent Auditor's Contract – Electronic Submission*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts

that would be material in relation to the basic financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted another matter involving the internal control over financial reporting that we have reported to management of the Boyd County School District in a separate letter dated August 7, 2003.

This report is intended solely for the information of the Board and management of the District, the Kentucky Department of Education, and federal awarding agencies and pass-through entities and is not intended and should not be used by anyone other than these specified users.

August 7, 2003

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Kentucky State Committee for
School District Audits
Members of the Board of Education
Boyd County School District
Ashland, Kentucky

Compliance

We have audited the compliance of the Boyd County School District (the "District") with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2003. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Boyd County School District's compliance with those requirements.

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2003.

Internal Control Over Compliance

The management of the District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information of the Board and management of the District, the Kentucky Department of Education, and federal awarding agencies and pass-through entities and is not intended and should not be used by anyone other than these specified users.

August 7, 2003

BOYD COUNTY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2003

(A) SUMMARY OF AUDIT RESULTS

1. An unqualified opinion was issued on the basic financial statements.
2. The audit of the basic financial statements of Boyd County School District as of and for the year ended June 30, 2003, did not disclose any internal control related reportable conditions.
3. The audit did not disclose any noncompliance which is material to the basic financial statements of Boyd County School District as of and for the year ended June 30, 2003.
4. There were no reportable conditions in internal control over major programs.
5. An unqualified opinion was issued on compliance over major programs.
6. The audit did not disclose any findings and questioned costs related to federal awards for the year ended June 30, 2003.
7. The District had the following major programs for the year ended June 30, 2003:
 - Head start
 - Title I
 - Food Service Cluster
 - Special Education (IDEA-B) Cluster
 - 21st¹ Century
8. The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
9. The District did not qualify as a low-risk auditee under OMB Circular A-133 *Audits of States, Local Governments and Non-profit Organizations*.

(B) FINDINGS RELATED TO FINANCIAL STATEMENTS IN ACCORDANCE WITH GENERALLY ACCEPTED GOVERNMENTAL AUDITING STANDARDS

None noted in the current year.

(C) FINDINGS AND QUESTIONED COSTS RELATED TO FEDERAL AWARDS

There were no findings in the current year.

BOYD COUNTY SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2003

There were no findings in the prior year.

BOYD COUNTY SCHOOL DISTRICT
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED JUNE 30, 2003

No corrective action plan needed in the current year.

Kentucky State Committee for School District Audits
Members of the Board of Education
Boyd County School District
Ashland, Kentucky

In planning and performing our audit of the general purpose financial statements of Boyd County School District (the "District") for the year ended June 30, 2003, we considered the District's internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the general purpose financial statements and not to provide assurance on the internal control structure.

However, during our audit, we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters. A separate report dated August 7, 2003, contains our report on internal control over financial reporting which disclosed no internal control related matters which were considered to be material weaknesses. This letter does not affect our report dated August 7, 2003, on the general purpose financial statements of the District.

We will review the status of these comments during our next audit engagement. We have already discussed these comments and suggestions with various District personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

August 7, 2003

BOYD COUNTY SCHOOL DISTRICT
MANAGEMENT LETTER POINTS
FOR THE YEAR ENDED JUNE 30, 2003

INDIVIDUAL SCHOOLS

Boyd County High School

Per review of monthly financial statements, we noted instances where disbursements exceeded the available balance in several club/accounts without a receivable recorded. We recommend that no disbursement be allowed without the funds available to cover the disbursement or a receivable recorded to offset the deficit. The situation was corrected at year end; however, it is not good policy to allow spending in excess of available funds throughout the year.

Management Response

Management intends to re-emphasize the need to follow state and District accounting procedures. The administration will continue to work with the high school to improve their financial capabilities.